

**THE HONORABLE TIM MAHONEY  
TESTIMONY BEFORE THE U.S. HOUSE FINANCIAL SERVICES  
SUBCOMMITTEE ON HOUSING AND COMMUNITY  
OPPORTUNITY REGARDING “PERSPECTIVES ON NATURAL  
DISASTER INSURANCE”**

Tuesday, March 27, 2007

Thank you Chairwoman Waters and Ranking Member Biggert for holding this important hearing today and allowing me to discuss problems that the people of my great state of Florida are having coping with the devastating impact of natural disasters and their struggles to meet those challenges by having access to comprehensive and affordable homeowner insurance.

Before I begin summarizing the insurance crisis facing my district and the state of Florida, I want to make sure that this Committee understands it is not just a Florida problem – it is a national problem. States all around the Gulf coast from Texas to Maine are facing similar situations due to hurricanes. My colleagues in California with earthquakes and fires. My friends in Oklahoma and Ohio with tornadoes and floods. We all are facing the same challenge.

The single biggest investment most Americans have is their home. The increased occurrence and severity of natural disasters, whether they be hurricanes, tornadoes, earthquakes, fires, or volcanoes, has caused insurance premiums to rise beyond the financial means of many homeowners in my State of Florida and around the country. In two years, the Gulf Coast region was struck by 7 major hurricanes. Just one of those hurricanes – Hurricane Katrina – caused more than \$40 billion in insured losses. Approximately, \$15.5 billion of that amount was the result of homeowners' claims.

Up until the moment Katrina ravaged New Orleans and the gulf coast, my district was the single biggest disaster area in the nation with no less than four major hurricanes destroying homes and businesses. Today three years after Hurricane Charlie ravaged the town of Punta Gorda you can still see the scarred downtown and a community working heroically to rebuild.

Despite no major storms during the 2006 hurricane season, many Florida homeowners have seen their insurance premiums double or triple during the past year. Earlier this month, one Florida insurance company won an arbitration case that will allow it to raise premiums on more than 22,000 customers by an average of 75.8 percent.

As anyone who has ever had a mortgage knows, insurance is a requirement and the payment of your insurance is non negotiable. This has created a vicious cycle of terror for our seniors living on a fixed income and our middle class families struggling to provide for their children.

The toxic cocktail of rising gas prices, skyrocketing property taxes, and exorbitant homeowners insurance costs have created a situation for the first time in our State's history where we have more people leaving Florida than coming. It is so acute that the real estate industry has a name for these people.... "Half-backs". They move to Florida from the north and due to the out of control costs they leave Florida and move half way back to Georgia, Tennessee and North Carolina.

Madame Chairwoman, in fact one in five business in Florida cannot get property insurance.

In January, the Florida Legislature passed legislation that was intended to provide consumers with rate cuts. Following the passage of this legislation, Florida's Insurance Commissioner, Kevin McCarty, estimated that the average rate cut for homeowners would be approximately 24 percent.

However, according to one Florida newspaper, “Florida’s biggest private insurers are asking for price cuts far less than state estimates.” For example, State Farm Florida Insurance Company’s requested rate reduction plan seeks to reduce the average premium in Florida by only 7 percent. Likewise, USAA’s requested plan would decrease premiums by a mere 3.1 percent.

The situation is so severe, that in order to have insurance, the people of my state had to get into the business. Today the state run Citizens insurance company is the largest provider of homeowners insurance in the state! The solution to our insolvent insurance company was to make it more competitive by offering fire and theft coverage as well. Clearly, the best solution our elected leaders could find when the market failed.

The affordability of property insurance is not the only obstacle facing my constituents. Millions of Florida’s hardworking families have paid their insurance premiums on time for years – despite the increased cost. In addition, many of these families have never filed a claim on their policy. Insurance companies have rewarded these responsible homeowners – not with rebates, but with non-renewal notices. Just a few weeks ago, Nationwide announced that it would continue with its earlier decision to

non-renew policies in Florida. As a result 25,000 Florida homeowners will be receiving notices that their policies will soon be cancelled.

The recent actions of Nationwide, as well as similar decisions by their competitors, communicate that the market is broken and that they are unwilling to be a part of the solution. As these companies profit from the freedom, stability and prosperity this nation offers, I believe that the industry should consider its corporate responsibility and join with Congress and the American homeowner in finding a solution to this crisis.

Chairman Frank at a press conference on this very subject made the statement that a role for government is to step in when markets fail. I am here Madame Chairman to testify that in my beloved State of Florida the insurance industry is broken and as a result the state is facing an economic crisis. Floridians are giving up on their American dream and are being forced into foreclosure, or to make decisions not to take their prescription medicine so they can afford to pay for insurance or being forced to sell their homes in a depressed real estate market and leave the state.

It is clear that homeowners across this country need a national catastrophe insurance program. The program that we in Congress create must assist our private insurance industry manage risk. Nobody got into the homeowners business thinking that they need to underwrite the devastation of an Andrew or Katrina.

Secondly, the homeowner needs to be protected as it relates to the availability of affordable homeowners' insurance. The policy they purchase must be comprehensive, eliminating the loophole between wind and water.

Finally, responsible legislation must ensure people take responsibility for their decision to live in high risk areas. Good legislation should not give people and builders a blank check to ignore risk. Good legislation must provide homeowners and builders incentives to mitigate risk by employing state-of-the-art construction technology.

Madame Chairman as you know, I have been asked by Chairman Frank and it leadership to work with my colleague Representative Kline to put together a comprehensive national catastrophe program. I look forward to your leadership and working with the Members of this Subcommittee, and Representatives Taylor and Brown-Waite to produce a piece of legislation

that will provide consumers with access to comprehensive affordable homeowners' insurance.

Again, I want to thank Chairman Frank and Ms. Waters for their leadership on this issue and I thank this committee the opportunity to testify on behalf of the people of Florida.